home mortgage insurance

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THE HOME MORTGAGE SYSTEM

Few families are able to pay cash for their homes. Helping people finance their home purchases on a sound basis is one of the chief purposes of the Department of Housing and Urban Development, through the Federal Housing Administration.

Under the FHA system, a homebuyer makes a small down payment and obtains a mortgage for the rest of the purchase price. The mortgage loan is made by a bank, building and loan association, mortgage company, insurance company, or other FHA-approved lender, and is insured by the FHA. It is not a Government loan. The FHA does not lend money or build homes. The mortgage contract calls for repayment in monthly installments over a term of years.

FHA mortgage insurance protects the lender against loss on the mortgage. The lender can therefore allow more liberal mortgage terms than the home buyer might otherwise be able to obtain, and many families that could not otherwise afford to do so can become homeowners.

Mortgages insured by the FHA can be used to pay for building, buying, or improving homes and for refinancing existing indebtedness.

THE FHA AND THE HOME BUYER

The Borrower must have:

- A good credit record.
- The cash needed at closing of the mortgage.
- Enough steady income to make the monthly mortgage payments without difficulty.

FHA sets no upper age limit for the borrower. Nor does it say he must have a certain income to buy a

home at a certain price. Age and income are considered along with other factors that help FHA judge whether or not he will be able to repay the mortgage.

The Property must at least meet the objectives of FHA minimum standards which require that the house be livable, soundly built, and suitably located as to site and neighborhood.

The Application for the loan is made to any lender that FHA has approved to make insured mortgage loans.

If the lender is willing to make the loan, it provides the proper forms and helps the borrower complete them. Then it forwards the papers to the FHA insuring office that serves the area in which the property is located.

The FHA office reviews the applicant's credit history to judge whether the loan would be reasonable for the borrower. The property is appraised to determine the amount of the mortgage which the FHA will insure.

The FHA tells the lender what it has decided. The lender informs the borrower.

If the FHA has approved the application, the lender arranges with the borrower for the closing of the loan.

The borrower deals directly with the lender. The lender handles the transaction with FHA.

An owner who wishes to sell a home can obtain a statement of the mortgage amount that the FHA will insure on it for an acceptable buyer. This can be done before the house is listed for sale.

The owner applies through an FHA-approved mortgage lender for a conditional commitment from the FHA.

BUILDER'S WARRANTY

On a home approved by the FHA for mortgage insurance before building is started, the builder must warrant that the house conforms substantially to the plans and specifications on which the FHA based its appraisal.

The warranty is in effect for one year, which begins on whichever comes first:

- The date the first buyer takes title to the home.
- The date the home is first occupied.

If during that year the owner sees defects that he believes the builder should correct, he should ask the builder, in writing, to do so.

If the builder fails to correct them, the owner can write to the FHA insuring office. He should mention his FHA case number and explain his problem.

If the FHA finds that the defect should be corrected by the builder, it will try to persuade him to do so. Usually the FHA is successful.

In some circumstances the FHA can pay to have a defect corrected that seriously affects the livability of the property.

A builder, of course, is not to blame for damage caused by normal wear and tear or by poor upkeep.

THE FHA-INSURED MORTGAGE

Interest Rate

The maximum *current regulatory* interest rate on an FHA-insured home mortgage is 7½ percent a year, and the FHA insurance premium (see below) is ½ of 1 percent. However, interest rates change from time to time, depending on the supply of and demand for mortgage money. *The maximum FHA rate may go up or down, but the interest rate does not change after mortgage is insured.*

The longer the term of the mortgage, the lower will be the amount of monthly payment but the higher the total amount of interest paid.

For a $10,000 mortgage at 7½ percent:

- The monthly payment to principal and interest is $80.60 for a 20-year mortgage. It is $70 for a 30-year mortgage.
- The total interest over 20 years is $9,321.49. Total interest for 30 years is $15,094.39.

TRUTH IN LENDING ACT

As of July 1, 1969, lenders are required under regulations issued by the Board of Governors of the Federal Reserve System to disclose to borrowers the "annual percentage rate" charged on a mortgage loan to finance the purchase of residential real estate.

In order to compute the "annual percentage rate," the lender must add to the mortgage interest rate the premium paid for insuring the

mortgage and for "discount points" and certain other charges collected by the lender.

For example, on a 30-year $10,000 mortgage bearing interest at 7½ percent, each $100, or "one point," collected by the lender will increase the "annual percentage rate" by slightly over 1/10 of 1 percent. Thus, if a $200 discount were collected, the "annual percentage rate" would be 8.2 percent. This includes 7.5 percent interest, plus 0.5 percent mortgage insurance premium, plus about 0.2 percent for the discount.

The FHA and HUD have no official role in administering the provisions of the Truth in Lending Act.

Mortgage Insurance Premium

The FHA charges a mortgage insurance premium of ½ percent a year on the average outstanding balance of the mortgage during the year. The amount charged does not take into account any overdue payments or any payments made in advance.

The FHA uses the income from premiums and from fees and investments to pay its expenses and insurance losses and to maintain its insurance reserves. The premium is collected with the monthly mortgage payment *and is in addition to the amount collected from the borrower for payment of interest and repayment of principal.*

Closing Costs and Prepaid Items

Closing costs may include the FHA application fee, a lender's service charge, costs of the title search, amounts charged to prepare, record, and notarize the deed and mortgage, and other items.

The borrower will also be asked at closing to make payments in advance for such items as taxes and property insurance.

The rate of interest that lenders can charge on FHA-insured mortgages is lower at times than the yield required by lenders in the market. For this reason, lenders sometimes discount FHA mortgages—that is, they charge points to make up the difference between the FHA interest rate and the yield required in the market. A point is a dollar per hundred dollars of the mortgage amount. The number of points charged varies in different places at different times and among different lenders.

Discount points are not charged by or paid to the FHA, and FHA does not set the number of points that a lender charges.

Because FHA regulations prohibit the home buyer from paying a discount, the lender may require the builder of the house or person selling it to pay the amount. If the borrower is building a home to live in or refinancing a property on which there is an outstanding mortgage, the lender can ask him to pay a reasonable discount.

FHA regulations do allow the buyer to pay an initial service charge, if the lender requires it. This charge can be no more than 1 percent of the mortgage amount, except when the lender makes inspections and partial disbursements during construction of a property that is either being built or to be built. In such cases, the charge can be as much as 2½ percent.

The borrower pays the FHA application fee, recording fees and taxes, title examination and credit report costs, and other closing costs.

Each discount point collected by the lender, whether from the borrower or other party to the transaction,

and the initial service charge are required to be taken into account in computing the "annual percentage rate" required to be disclosed to the borrower under the Truth in Lending Act.

Monthly Payment

The monthly mortgage payment includes interest, principal (part of the loan balance), and amounts for mortgage insurance premium, fire and other property insurance, and taxes and special assessments.

Advance Payments

A homeowner can pay off his entire mortgage balance, or make one or more extra payments of principal, when he makes his regular monthly payment. He must give his lender written notice at least 30 days in advance that he intends to do so. By making extra payments, he can repay his loan faster and save on interest. Such extra payments do not automatically relieve the homeowner from continuing to make a regular payment every month.

FHA may charge an adjusted premium of not more than 1 percent of the original mortgage amount when the mortgage is paid off, if the total of these extra payments, including any lump sum final payment, in any calendar year is over 15 percent of the original loan amount. The charge is not made if the mortgage has been insured for at least 10 years at the time final payment is made. Nor is it made if the owner pays off the loan when he or a new owner places a new FHA-insured mortgage on the same property.

Resale of Home

There are several ways for a person i
purchase of a home on which an
mortgage is in force. The owner who
home should be sure he knows how the
affect him. Either of the first
mentioned below is likely to be bette
than the third:

- The buyer can pay cash, and the seller can pay off the mortgage balance. This ends the seller's obligation.

- If the purchaser is approved by the FHA, the lender may release the seller from liability on the mortgage and substitute the purchaser. There is no minimum downpayment requirement if the sale is from one owner-occupant to another owner-occupant.

- The buyer can buy the home subject to the mortgage. FHA approval is not needed; but the seller's name will still be on the mortgage, and the lender may look to him for the mortgage payments if the buyer fails to make them. Also, while he is liable on that mortgage, the seller may be unable to obtain an insured mortgage on another house unless the buyer has been approved by the FHA.

TYPICAL TRANSACTIONS

The following table shows, for homes of various values, the highest mortgage amount that can be insured under Section 203(b). Also shown are the smallest downpayments that can be made, and the monthly payments to interest, principal, and mortgage insurance premium based on the 7½ percent interest rate. Amounts for other items included in the monthly payment, such as taxes and property insurance, vary from place to place and are not shown in this table. The table applies only to homes that the owners are to live in.

If there are changes in the interest rate, new payment tables will be available at local FHA insuring offices or from FHA-approved mortgage lenders.

Section 203(b)

Maximum Mortgage Amounts, Minimum Required Investments, and Monthly Mortgage Payments, for Owner-Occupied 1-Family Homes*

Proposed and Existing Construction

FHA Value	Maximum mortgage amount[1]	Minimum required investment	Monthly payment (30-year term)[2]
$ 6,000	$ 5,800	$ 200	$ 43.01
7,000	6,750	250	50.05
8,000	7,750	250	57.47
9,000	8,700	300	64.52
10,000	9,700	300	71.93
11,000	10,650	350	78.97
12,000	11,600	400	86.01
13,000	12,600	400	93.43
14,000	13,550	450	100.47
15,000	14,550	450	107.89
16,000	15,400	600	114.19
17,000	16,300	700	120.86
18,000	17,200	800	127.54
19,000	18,100	900	134.21
20,000	19,000	1,000	140.89
21,000	19,800	1,200	146.82
22,000	20,600	1,400	152.75
23,000	21,400	1,600	158.68
24,000	22,200	1,800	164.61
25,000	23,000	2,000	170.55
26,000	23,800	2,200	176.48
27,000	24,600	2,400	182.41
28,000	25,400	2,600	188.34
29,000	26,200	2,800	194.27
30,000	27,000	3,000	200.21
31,000	27,800	3,200	206.14
32,000	28,600	3,400	212.07
33,000	29,400	3,600	218.00
34,000	30,000	4,000	222.45
35,000	30,000	5,000	222.45

1 After adjustment to next lower multiple of $50 for mortgage amounts up to $15,000 and $100 for mortgage amounts above $15,000.

* Mortgage amounts may be increased and cash payments reduced for qualified veterans.

2 Monthly payment includes principal, interest at 7½ percent per annum, and 1/12th the first annual mortgage insurance premium at ½ percent per annum. *In addition to the amount shown for principal, interest, and mortgage insurance premium, the lender will collect with each monthly payment 1/12 of the the estimated amount necessary for payment of real estate taxes, special assessments, and fire and other property insurance.*

MUTUAL MORTGAGE INSURANCE – SECTION 203*

Most home mortgages insured by the FHA are insured under Section 203 of the National Housing Act, the basic FHA home mortgage program.

Mortgage Loan Amount

Mortgage amounts insured under Section 203(b) can be as high as $30,000 on one-family homes. They can be higher in Alaska, Hawaii, and Guam because costs are higher there.

Ratio of Loan to Property Value

The amount of a Section 203(b) mortgage, based on FHA's valuation of the property, cannot be more than 97 percent of the first $15,000 (100 percent in the case of an eligible veteran) plus 90 percent of the next $5,000 plus 80 percent of the remainder (85 percent in the case of an eligible veteran). The qualifying veteran must pay at least $200 in cash for the home. This $200 may be applied to closing costs and prepaid items. The $200 payment is required on any home costing $15,000 or less and on the first $15,000 of any home costing more.

If the mortgage covers a dwelling approved for mortgage insurance after building begins and before the house is a year old, the mortgage limit is 90 percent of the first $20,000 of value, plus 80 percent (85 percent for veterans) of value above $20,000.

* Mortgages on 2-, 3-, and 4-family homes as well as on one-family homes can be insured under Section 203 and Section 221(d)(2).

If the owner is refinancing an existing mortgage, the FHA-insured mortgage can be no more than the greater of the following:

- 85 percent of the amount that can be insured when the borrower is buying or building a home to live in.

- The sum of the unpaid balance of the old mortgage and the costs for any repairs or improvements and for obtaining the loan.

If the home is being bought or built as an investment, the loan is also limited to 85 percent of the amount that can be insured for a person buying or building a home to live in.

On homes in outlying areas where it is impracticable to meet requirements for housing in built-up urban areas, the FHA can insure mortgages under Section 203(i). The amount of a Section 203(i) mortgage cannot exceed $13,500. It is also limited to not more than 97 percent of appraised value (90 percent on homes approved for mortgage insurance after building starts and before the house is a year old). If the borrower is a builder constructing the house for sale, his mortgage cannot exceed 85 percent of appraised value. If an owner refinances a mortgage on the house he lives in, the new mortgage cannot exceed the greater of:

- 85 percent of value.

- The sum of the unpaid balance of the old mortgage and the costs for repairs or improvements and for obtaining the mortgage.

Downpayment

The downpayment is the difference between the insured mortgage and the amount it costs to acquire the home. The acquisition cost includes the purchase price plus closing costs to be paid by the purchaser. *The acquisition cost does* not include prepaid items or nonrealty items such as furniture.

The *maximum mortgage amount which the FHA will insure* is figured on either FHA value or acquisition cost, whichever is less. If the purchase price is higher than the FHA value, the home buyer pays the difference in cash. If the purchase price is lower than the value, FHA figures the mortgage amount on the basis of acquisition cost rather than on property value.

The downpayment (including closing costs to be paid by the borrower) and the prepaid items must be paid in cash or its equivalent. His lot, if he owns it, may count as all or part of the downpayment based on the value of the lot and how much he has paid for it. A buyer 62 years of age or older (or a buyer of a home in an outlying area insured under Section 203(i), regardless of his age) may borrow the money for downpayment and prepaid items from a person or corporation approved by the FHA.

Time Allowed for Repayment of Mortgage

A Section 203(b) or 203(i) mortgage may be repaid in monthly payments over a term of 10, 15, 20, 25, or 30 years. In a few special cases the term may be 35 years.

Minimum Property Standards

The minimum standards for property as well as for location are somewhat lower for Section 203(i) loans than for Section 203(b) loans.

LOW AND MODERATE PRICED HOMES SECTION 221(d)(2)*

Home mortgages insured under Section 221(d)(2) of the National Housing Act apply to homes for families

* Mortgages on 2-, 3-, and 4-family homes as well as on 1-family homes can be insured under Section 203 and Section 221(d)(2).

forced to move because of urban renewal or other governmental action such as highway building, or as a result of a major disaster. They also apply to homes for other families of low and moderate income.

Mortgage Loan Amount

A Section 221(d)(2) mortgage on a one-family home is limited to not more than $15,000. In high-cost areas, the top limit is $17,500, which can be increased by an additional $2,500 when the dwelling unit is to be occupied by a family of 5 or more persons and additional criteria are met. FHA has prescribed limits for the area served by each of its insuring offices, based on cost levels in the area.

Ratio of Loan to Property Value

If the owner is going to live in the home, the insured mortgage can equal the full value of the property. If the home is less than a year old but was not built under FHA inspection, the limit is 90 percent of value.

If the borrower is buying and improving a home to live in, the mortgage amount cannot exceed the estimated cost of repairs plus whichever is less:

- The estimated value of the home before the improvements are made.

- The actual purchase price.

If the borrower is constructing or rehabilitating the home for sale, the mortgage cannot exceed whichever is less:

- 85 percent of the amount that can be insured for a person buying or building the home to live in.

- 85 percent of its value.

If the owner lives in the home and borrows to refinance, the mortgage limit is whichever of the following is greater, but not exceeding the value of the property:

- 85 percent of value.
- The present mortgage balance plus costs for repairs or rehabilitation and for obtaining the loan.

Downpayment

A displaced family must make a downpayment of at least $200, which can be applied to closing costs and prepaid items. Other families must make a downpayment of at least 3 percent of acquisition cost.

Time Allowed for Repayment of Mortgage

Except in a few special cases, the longest term is 30 years.

Minimum Property Standards

FHA minimum standards for low-cost housing apply to one-family homes financed under Section 221. The location standards are the same as for Section 203(b).

The programs described in this bulletin are provided under Section 203 and Section 221 of the National Housing Act, as amended, and administered by the Federal Housing Administration, U.S. Department of Housing and Urban Development.

EQUAL OPPORTUNITY IN HOUSING: Racial discrimination in housing of any size is a violation of the Civil Rights Act of 1866. In addition, the Civil Rights Act of 1968 contains a Federal Fair Housing Law (Title VIII) which established fair housing as the policy of the United States. This law prohibits discrimination on the basis of race, color, religion, and national origin.

Persons complaining of discrimination in housing have a choice of remedies including filing a civil action in Federal court (or in some cases State courts), or complaining to HUD.

Regional Offices of the Department of Housing and Urban Development

Region I 26 Federal Plaza New York, New York 10007	Connecticut Maine Massachusetts New Hampshire New York Rhode Island Vermont
Region II Widener Building Chestnut and Juniper Streets Philadelphia, Pennsylvania 19107	Delaware District of Columbia Maryland New Jersey Pennsylvania Virginia West Virginia
Region III 645 Peachtree-Seventh Building Atlanta, Georgia 30323	Alabama Florida Georgia Kentucky Mississippi North Carolina South Carolina Tennessee
Region IV Room 1500, 360 North Michigan Avenue Chicago, Illinois 60601	Illinois Indiana Iowa Michigan Minnesota Nebraska North Dakota Ohio South Dakota Wisconsin
Region V Federal Office Building Room 13A01, 819 Taylor Street Fort Worth, Texas 76102	Arkansas Colorado Kansas Louisiana Missouri New Mexico Oklahoma Texas
Region VI 450 Golden Gate Avenue, P.O. Box 36003 San Francisco, California 94102	Northern California Guam Hawaii Northern Nevada Southern Idaho Utah Wyoming
Area Offices:	
226 Arcade Plaza Building 1321 Second Avenue Seattle, Washington 98101	Alaska Montana Northern Idaho Oregon Washington
Room 1015, 312 North Spring Street Los Angeles, California 90012	Arizona Southern California Southern Nevada
Region VII Ponce De Leon Avenue and Bolivia Street P.O. Box 3869, GPO San Juan, Puerto Rico 00936	Virgin Islands Puerto Rico

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